


AR36

Concept

Ram Petroleums Limited

Annual Report 1974



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RAM PETROLEUMS LIMITED

(Incorporated under the laws of Ontario)

Executive and Head Office

Suite 520, The Simpson Tower, 401 Bay Street, Toronto, Ontario M5H 2Y4

Directors

Howard R. Barclay
Richard H. Krempulec
Ralph W. McDowell
Robert J. Opekar
R. Bredin Stapells, Q.C.

Transfer Agents

The Metropolitan Trust Company
Toronto, Ontario
The Bank of Butterfield Executor
and Trustee Company Ltd.
Hamilton, Bermuda

Officers

Robert J. Opekar, President
Howard R. Barclay, Vice-President
Richard H. Krempulec, Secretary

Auditors

Dunwoody & Company
Toronto, Ontario

Banker

The Bank of Nova Scotia
44 King Street West
Toronto, Ontario

Exploration Manager

Cyril J. Hadley, P.Geol., P.Eng.

Staff Geologist

Robert O. Cochrane, P.Geol., P.Eng.

General Counsel

Stapells & Sewell,
Toronto, Ontario

REPORT TO SHAREHOLDERS

Your company had a year of growth and achievement in 1974.

The sale to Union Gas Limited of the Terminus Pool, located in Lambton County, Ontario, was completed on July 15th, 1974. The sale price was \$7 million of which \$2 million was received on closing. Of the remaining \$5 million, \$2 million was received on January 1st, 1975 and \$1.5 million will be received on January 1st, 1976 and on January 1st, 1977. Interest at one percent over Union's main bank's yearly average prime rate is receivable on the unpaid portion. As a result of the sale of this asset, your company is adequately financed to carry out exploration to discover additional reserves of oil and gas.

Exploration in Ontario during 1974 and so far in 1975 has not resulted in any significant discovery. However, drilling and geophysical work have provided important clues, in the opinion of the company, which it is hoped will result in a number of discoveries within the next couple of years. Commencing later in 1975 your company will divert some of its funds to the drilling of Trenton exploration tests in Essex and Kent Counties. This will be a departure for the company, which in the past has concentrated its work in Lambton County, where the target is gas bearing pinnacle reefs of Silurian age.

Ontario producers are paid a price for oil equal to the price posted by Interprovincial Pipe Line Limited at Sarnia. In this way, as oil prices in Western Canada go up, Ontario producers will receive higher prices which are necessary in order for them to pay for the constantly increasing cost of exploration. Unfortunately the same reasonable pricing policies do not apply to gas production because the monopolistic buyer, Union Gas Limited, has so far refused to pay Ontario producers a price equal to the price it pays for Western Canadian gas. Your company has spent money and devoted management time in making representations to the Province of Ontario with respect to this inequitable situation. The Silurian formations in Lambton County are gas prone whereas the Trenton formations in Essex and Kent Counties are oil prone. A concrete way of showing your company's dissatisfaction with the price paid for gas produced in Ontario is to divert its exploration money to search for oil rather than gas.

Another policy of the company is to maximize expenditures where a higher price is paid for oil and gas. As a result, your company has in recent years increased its exploration expenditures in the United States, particularly the State of Michigan. During 1974 your company's wholly owned U.S. subsidiary, Ram Petroleum Inc., participated in a number of discoveries in Michigan. These are described more fully elsewhere in the annual report. The policy of maximizing exploration expenditures in the United States will continue until producers in Canada receive a much larger after-tax return from oil and gas production. The price of oil in Michigan at the end of this month will be \$11.40 a barrel and the price of gas will be in excess of \$1.00 per mcf, after allowing for bonuses for b.t.u. value. In contrast to this, Ontario producers are receiving, depending on quality, from \$6.50 to \$7.20 a barrel for oil and are being offered 60¢ per mcf for new gas. The situation in Western Canada is even worse because the prices are lower and the producer is faced with much larger provincial royalty payments and higher federal taxes due to taxes on provincial royalty payments which are deemed as income in the hands of the

producer. One redeeming feature in Ontario is that all the company's leases are with freehold landowners and in the most part are subject only to a 12½% royalty payment which is not subject to federal income tax.

Your company has continued to add to its landholdings in Utah and has commenced geological studies of other attractive exploration areas in the United States.

During 1974 little took place to affect the value of your company's holdings in Canadian frontier areas. However, substantial interests are still held in the offshore Baffin Island, Arctic Islands and Great Bear Lake areas of the Northwest Territories. In addition, the company has continued its policy of making applications pending the publication of new Canada Oil and Gas Regulations. Approximately 738,038 acres of oil and gas permits were applied for recently in the southwest portion of Victoria Island in the Northwest Territories. This brings the company's holdings to 1,963,023 acres under pending application in the Northwest Territories and Yukon. Deposits totalling \$98,151.15 are returnable if the company elects not to take the permits in question within thirty days of the publication of the new regulations.

In Mexico your company, through its 92% owned subsidiary, Mextor Minerals Limited, which owns 49% of Compania Minera de Pinabete, S.A., has continued to maintain its various properties in good standing. Negotiations are still continuing which may result in the sale of the main Pinabete silver property.

Your company has acquired a 75% interest in 55 mining claims located in Township 168, Sault Ste. Marie Mining Division. Negotiations are underway to interest another company to drill two deep holes to earn an interest in these claims. The targets here are uranium bearing conglomerates at a depth of about 5500'. In the Yukon, your company has a 18% interest in the Harman Syndicate which, during 1975, will do work on a number of properties staked in the Bonnet Plume area during 1974. The target here is lead zinc mineralization occurring in Devonian sediments.

During 1975 I foresee a substantial growth in earnings of the company, which will finally begin to receive a return on the large amounts invested by it in prior years in acquiring, retaining and evaluating its very extensive holding of oil and gas leases and permits.

On Behalf of the Board,

R. J. OPEKAR, President

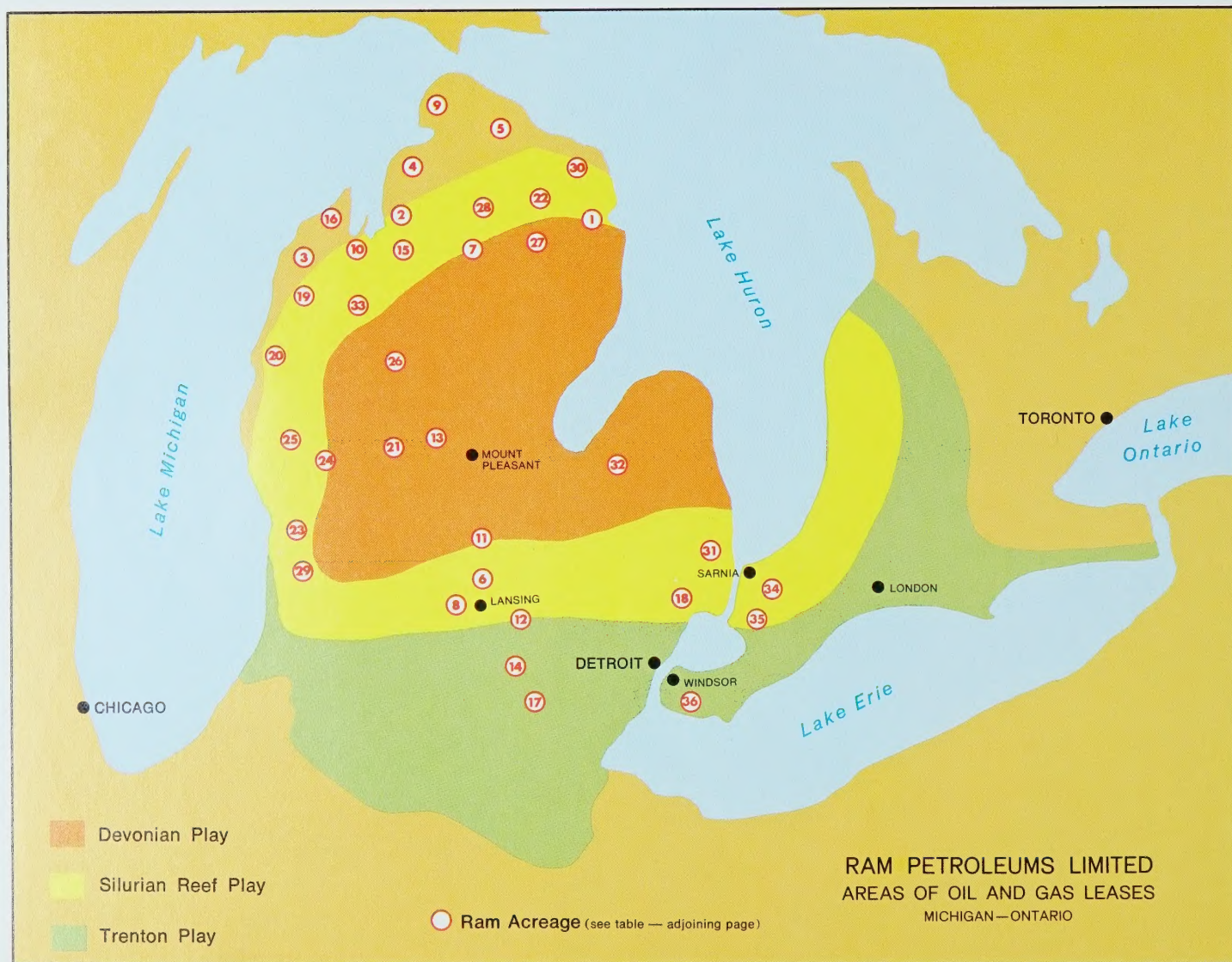
April 14, 1975.

RAM PETROLEUMS LIMITED

PRINCIPAL EXPLORATION AREAS



1. **ARCTIC ISLANDS** (Sverdrup Basin)
Federal oil and gas exploration permits
72,491 acres, Ram 75%, Forest Oil 25%
107,504 acres, Ram 75%, Imperial Oil 25%
2. **NORTHWEST TERRITORIES** (Coronation Gulf)
Pending Federal oil and gas exploration permits
738,038 acres, 100%
3. **NORTHWEST TERRITORIES** (Great Bear Basin)
Federal oil and gas exploration permits
550,058 acres, 4% gross overriding royalty
4. **YUKON**
Pending Federal oil and gas exploration permits
1,224,985 acres, 100%
5. **DAVIS STRAIT OFFSHORE BAFFIN ISLAND**
(Cumberland Basin)
Federal oil and gas exploration permits
1,087,410 acres, Ram 66%, Gulf 33%
6. **SASKATCHEWAN**
Lignite coal, exploration leases
40,480 acres, 100%
7. **UTAH**
Petroleum leases,
28,128 acres, 100%, Ram Petroleums Inc.
8. **MICHIGAN** (Michigan Basin)
Petroleum leases
35,723 net acres, 100%, Ram Petroleums Inc.
9. **ONTARIO** (Michigan Basin)
Petroleum leases
41,000 acres, 100%
10. **OFFSHORE NOVA SCOTIA** (Scotia Shelf)
Provincial oil and gas exploration permits
666,970 acres, 100%
11. **MEXICO**
Mextor-Pinabete Mining Area
Silver, copper, gold, lead, zinc prospects
Ram 91.6% owner of Mextor Minerals Limited.



OIL AND GAS EXPLORATION

MICHIGAN (MICHIGAN BASIN)

LEASEHOLD INTERESTS

Ram Petroleum Inc., your company's wholly owned U.S. subsidiary, now has more than 35,000 net acres under lease in the State of Michigan. This is an addition during 1974 of approximately 900 acres.

During the past year, Ram and its partner, Reef Petroleum Corporation, a very successful independent local operator, completed a 113.9 mile seismic program which upgraded several interesting anomalies detected during the 1973 program and uncovered several new anomalies in which Ram has leasehold interests of 50% to 75%. Ram and Reef together with other minority interest holders drilled eight exploratory tests during the year on seismic anomalies along the North Michigan reef trend with good results. Three of the tests discovered new pinnacle reefs and one test is believed to have uncovered an extension to a reef found previously by another company. Out of these four tests two wells have been completed as commercial gas wells, of which one is also capable of producing condensate. The remaining two reef discoveries were found to be salt plugged in one instance and water filled in the other. Four tests drilled a normal off-reef section and were abandoned. The four tests which drilled off-reef sections indicated the possibility of nearby reefing, the delineation of which warrants additional seismic work.

So far during 1975 one well, in which your company has a 50% interest, has discovered a new pinnacle reef in Bear Lake Township of Manistee County. This well was recently completed as an oil producer with an expected rate of production of 300 barrels of oil per day.

ROYALTY INTERESTS

During 1974 Ram stopped purchasing royalty interests along the North Michigan pinnacle reef trend because escalating acquisition costs have made the economics of this type of investment less attractive. Ram owns royalty interests in 13,628 gross acres equivalent to 2,200 net acres. To date Shell Oil Company has drilled 29 discovery wells in which Ram owns a portion of the royalty interest. At present five of the Shell wells are producing and we expect a total of 18 to be on stream by year end 1975.

NEW PRODUCTION (1974)

OSBORNE 1-15 POOL (MANISTEE COUNTY) (NEW REEF DISCOVERY)

No. wells drilled	1
Producing wells	1
Percentage owned	25%
Gas in place	Not established
Production start	August, 1975
Expected rate of daily production	Gas — 3.5 MMcf per day Condensate — 140 barrels per day

AMOCO #B 1-3 (GRAND TRAVERSE COUNTY) (REEF EXTENSION)

Albert Bodmann #1-11	
No. wells drilled	1
Producing wells	1 (2 Amoco gas & condensate producers in reef)
Percentage owned	12.5%
Gas in place	Not established
Production start	August, 1975
Expected rate of daily production	Gas — 4 MMcf per day Condensate — 140 barrels per day

NEW PRODUCTION TO FEBRUARY 28, 1975

MILLER #1-20 (MANISTEE COUNTY) (NEW REEF DISCOVERY)

No. wells drilled	1
Producing wells	1 (presently being completed)
Percentage owned	50%
Oil in place	Not established
Production start	June, 1975
Expected rate of daily production	Oil — 300 barrels per day

MICHIGAN

County	Leasehold		Royalty	
	Gross Acres	Net Acres	Gross Acres	Net Acres
1 Alpena	375	316	—	—
2 Antrim	8,056	5,795	—	—
3 Benzie	637	513	359	65
4 Charlevoix	2,304	1,765	—	—
5 Cheboygan	480	480	—	—
6 Clinton	5,383	2,691	—	—
7 Crawford	5,130	3,847	200	19
8 Eaton	1,994	997	—	—
9 Emmet	160	160	—	—
10 Grand Traverse	338	315	4,797	817
11 Gratiot	4,610	2,305	—	—
12 Ingham	49	36	—	—
13 Isabella	3,283	1,641	—	—
14 Jackson	248	124	—	—
15 Kalkaska	334	245	1,028	67
16 Leelanau	2,859	953	—	—
17 Lenawee	2,020	1,010	—	—
18 Macomb	184	137	—	—
19 Manistee	2,666	1,822	4,960	886
20 Mason	950	712	399	121
21 Mecosta	968	484	—	—
22 Montmorency	773	574	—	—
23 Muskegon	80	40	—	—
24 Newaygo	671	335	—	—
25 Oceana	240	110	—	—
26 Osceola	465	232	—	—
27 Oscoda	2,775	1,387	—	—
28 Otsego	2,837	1,131	840	11
29 Ottawa	5,362	2,680	—	—
30 Presque Isle	1,134	932	—	—
31 St. Clair	1,770	1,265	—	—
32 Tuscola	1,058	529	—	—
33 Wexford	631	160	1,045	214
TOTAL	60,824	35,723	13,628	2,200

ONTARIO

34 Lambton	29,842
35 Kent	225
36 Essex	10,933
TOTAL	41,000

ONTARIO (MICHIGAN BASIN)

Ram Petroleum Limited has more than 29,800 carefully chosen acres under lease in the pinnacle reef belt of Lambton County, Southwestern Ontario, where oil and gas are found in formations of Silurian age. This represents an addition of only 1,100 acres over the 1973 figures, an indication of the difficulty of acquiring leases in this extremely competitive play. During the year Ram completed an 85.92 mile seismic survey over portions of the acreage which appeared promising according to previous survey results. Six wholly owned wells and one 50% interest well were drilled during the year. Three of these exploratory tests were drilled on poor quality seismic features with the remainder on features delineated through subsurface well control. Two tests encountered non-commercial quantities of natural gas resulting in one abandonment and one suspended gas well which will remain suspended pending additional seismic and drilling activity. The remaining five tests, including the part interest well, were non-productive and abandoned. Ram expects to drill at least eight exploratory tests in the pinnacle reef belt during 1975.

Elsewhere in Ontario Ram initiated and is presently continuing a land leasing program in an area where several interesting features hold promise for discovery of oil in rocks of Trenton age. Ram presently has 10,933 acres under lease in this area where several exploratory tests may be completed by late 1975. Crude oil production from the Trenton commands the highest market price for oil in Ontario and, with additional price increases for crude probable over the next few months, the company considers the timing of this new exploration program appropriate.

Ram's oil production from the Petrolia East Pool, discovered in 1972, continues at a stable rate with little or no production problems and every indication of per well long life production. The daily rate of production, however, is felt to be too low and the company is continuing its study of all available well stimulation treatment information in order to find a method to improve output.

UTAH

GREAT SALT LAKE AREA PLAY

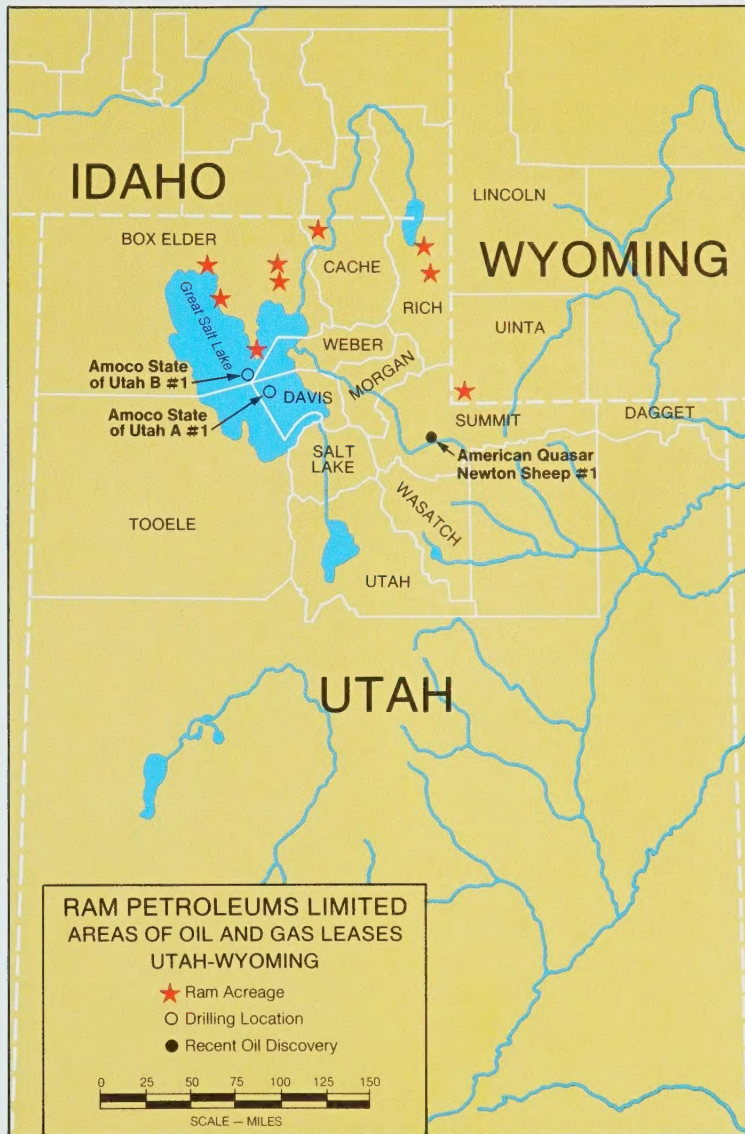
During 1974 Ram continued its leasing program, begun in 1973, in the Great Basin area of the State of Utah. The Great Basin is considered an unexplored "frontier" area of the United States. Because of higher prices for domestically produced oil and natural gas, this basin is now experiencing an extensive leasing and recently commenced drilling campaign by major oil companies.

Ram has 8,671 acres under oil and gas lease adjacent to and beyond the northeastern margin of the Great Salt Lake where Amoco is active and recently announced the location of two exploratory tests, offshore in the Great Salt Lake. Drilling of the first of these locations is expected to commence in late 1975.

OVERTHRUST BELT

In 1973 Ram began leasing in Rich County, Utah, adjacent to the Utah-Wyoming border, recognizing the overthrust belt to be a neglected petroleum province with much potential. Ram has acquired 19,457 acres in the area of the Town of Randolph, Utah and northward to the vicinity of the southern margin of Bear Lake.

Recently, American Quasar Petroleum announced the drilling of an oil discovery well immediately east of the Town of Coalville in Summit County, Utah, approximately 50 miles south of Ram's acreage in Rich County. This well encountered oil from the Nugget Sandstone of Triassic or Jurassic age which is generally porous in the subsurface and ranges in thickness from 550' to 1700'. The well is reported to have 140' of productive Nugget sandstone. This discovery opens up a new oil province reaching from Coalville, northward through Morgan, Weber, Rich and Cache Counties to the Idaho State line, as well as northeastward into Wyoming. Ram considers its acreage strategically located to take best advantage of a major oil play which is shaping up. Although Ram does not plan to commence an exploration program on its acreage at this time, it will possibly join with adjacent landholders in some form of joint exploration later in the year.



DAVIS STRAIT OFFSHORE BAFFIN ISLAND (CUMBERLAND BASIN)

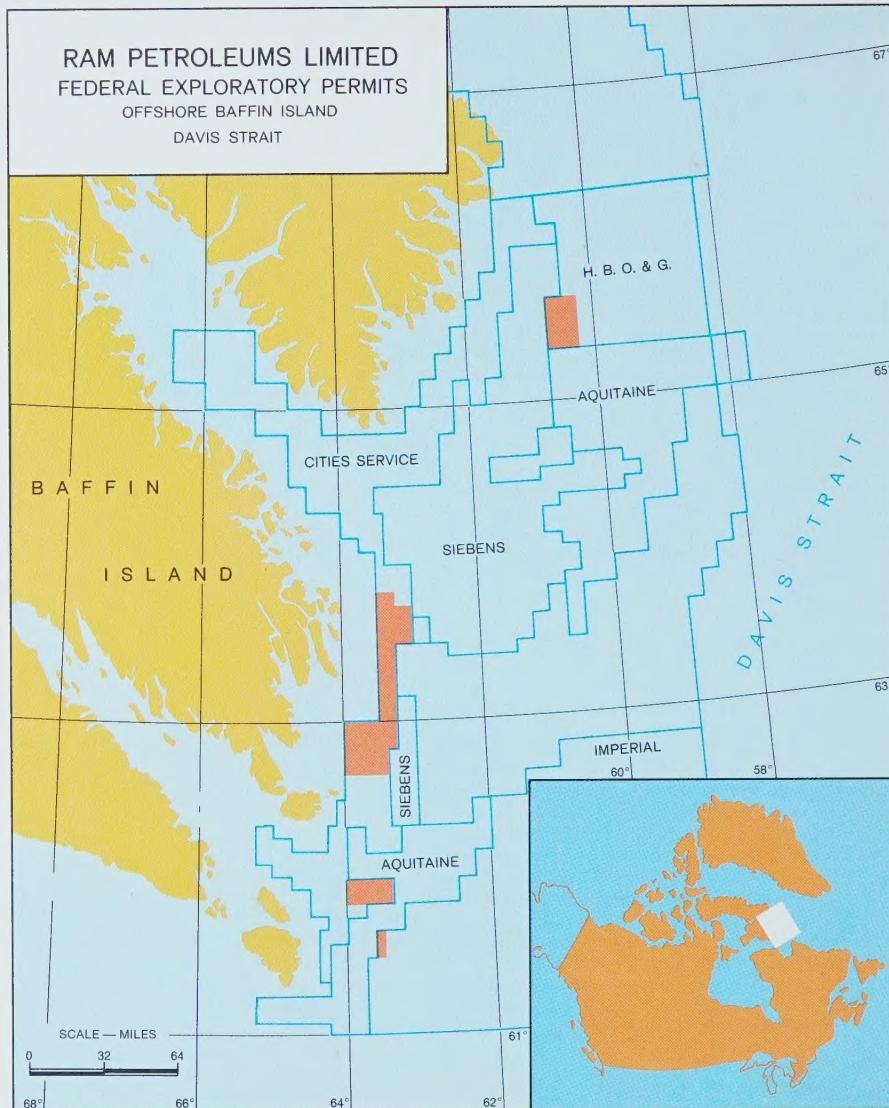
Ram has federal oil and gas exploration permits over 1,087,410 acres in the Labrador Sea off the east coast of Baffin Island adjacent to permits held by companies such as Imperial Oil Limited, Banff-Aquitaine and Siebens Oil and Gas.

This is a very prospective area where sediments up to and beyond 20,000 feet are expected to contain large reserves of hydrocarbons. Ninety percent of the oil in the world has been found in sedimentary rock of the type believed to underlie this area. The Canadian Petroleum Association's estimate of potential reserves in the area of the Grand Banks and Labrador Sea is 25 billion barrels of oil and some 150 trillion cubic feet of natural gas.

During 1971 Ram farmed out its holdings in this area to Gulf Canada Limited. Gulf can earn a 33½ percent interest by performing exploratory work and will have the option to earn up to 80% interest for the drilling and completion of an exploratory well. An aeromagnetic survey was completed during 1971 at no cost to your company.

During the summer of 1973, Gulf completed an extensive marine geophysical program offshore Baffin Island, a portion of which was conducted over the Ram permits:

This program delineated areas within the Ram permit blocks which had significant thickness of favourable sediments and associated structures. A follow-up seismic program slated for the summer of 1974 met with navigational problems which puts into question the value of the work.



OFFSHORE NOVA SCOTIA (SCOTIA SHELF)

Ram has provincial exploratory permits on 666,970 acres offshore Nova Scotia on the Scotian Shelf, where extensive exploratory drilling has been carried out by Shell and Mobil in the area of the Sable Island and Primrose discoveries.

In 1972, Shell drilled the Primrose N-50 exploratory test some thirty miles east of Sable Island which confirmed the presence of a significant gas bearing structure. Two additional wells on the Primrose structure have confirmed the presence of a main gas zone uppermost of four pay zones found in the discovery well. The discovery well is located approximately three miles west of one of Ram's provincial permits.

In late 1972 Ram completed a 315 mile purchase of non-exclusive offshore seismic traversing or adjacent to Ram permits in the vicinity of Sable Island and in other areas of the Scotian shelf. During the summer of 1973 Ram shot an additional 72 miles of seismic within and in proximity to the Ram permits east of Sable Island in the vicinity of the Shell discovery on the Primrose structure. This seismic data has been processed and interpreted and appears encouraging, however, Ram does not have any additional exploratory program planned for the immediate future pending the outcome of the Federal-Provincial offshore jurisdictional dispute.

ARCTIC ISLANDS (SVERDRUP BASIN)

Ram has 179,995 acres of Federal Government exploratory oil and gas permits in the Sverdrup Basin of the Canadian Arctic Islands. These permits are favourably located with respect to known geological structures and recent gas discoveries.

Early in 1972 Ram farmed out two permits consisting of 107,504 acres off Amund Ringnes Island to Imperial Oil Limited which can earn a 25% working interest by satisfying work obligations up to August 9, 1980 in the amount of \$279,510. Imperial has the option of increasing its interest to 100%, subject to a 20% net profits interest to Ram, by drilling a test well to evaluate the Triassic Heiberg formation or to 10,000 feet whichever is the lesser. Imperial has not performed any exploratory work on these permits to date.

Subsequently, Ram farmed out two permits consisting of 72,491 acres on Axel Heiberg Island to Forest Oil of Canada, Ltd., a wholly owned subsidiary of Forest Oil Corporation of Denver, Colorado. Forest can earn a 25% working interest by satisfying work obligations to 1980 in the amount of \$192,101. Forest has the option of increasing its interest to 75% by drilling and completing a well on each of the permits. Ram may convert its remaining 25% working interest in any drilling tract to a 7½% gross overriding royalty. Forest Oil has not performed any exploratory work on these permits to date.

YUKON

Ram has 1,224,985 acres in the Yukon under tentative permit pending changes in the federal regulations.

A portion of this acreage lies in the Eagle Plain area of the Yukon where a shoreline sandstone facies of Jurassic age is postulated as trending southwestwardly from the prolific Mackenzie Delta area through Ram's permits. As the Yukon permits are tentatively issued pending changes in the federal land regulations, Ram does not plan any immediate exploratory work on these permits.



MINING EXPLORATION

NORTHWEST TERRITORIES GREAT BEAR LAKE

In 1973 Ram Petroleum Limited sold its working interest in 550,058 acres of Federal oil and gas permits in the Horton River area of the Northwest Territories to Mobil Oil Canada Limited. Ram retains a 4% gross overriding royalty on these lands while Mobil continues to explore. An extensive seismic survey has been conducted over the past three years together with a surface geological survey. The play is for basal Paleozoic sandstone production along the eastern edge of a wedge of Paleozoic sediments that hold potential for finding significant hydrocarbon reserves. In 1973 Ashland Oil Canada Limited discovered gas in the basal Paleozoic sands at Tedji Lake approximately 100 miles northwest of the permits in question. The pay zone in the Tedji Lake well was relatively thin and the same unit is felt to thicken to at least 250' toward the east.

While the current target in this play involves the basal Paleozoic sandstones, many participants in the play regard the underlying Proterozoic, sediments of pre-Cambrian age, as a potential horizon for entrapment of large hydrocarbon reserves similar to those uncovered in Siberia's Irkutsk Basin. It is felt that as the play progresses several tests may be deepened to test the potential of the many thousands of feet of Proterozoic sediments believed to exist in this area.

NORTHWEST TERRITORIES CORONATION GULF

Ram has pending applications for permits covering 738,038 acres in the Northwest Territories. When the revised Canada Oil and Gas Land Regulations are issued, Ram will have the option of taking the permits or receiving back the deposits which accompanied the application. This acreage lies along the south shore of Victoria Island and adjacent to Coronation Gulf. The acreage was filed on in anticipation of an upcoming play within sediments of Proterozoic age felt to underlie a cover of outcropping Paleozoic rocks.

LIGNITE

During the year Ram completed further reconnaissance drilling which resulted in the conversion of 25,600 permit acres to 6,400 acres of coal leases. The company's present holding is 40,480 lease acres on which drilling has indicated in excess of half a billion tons of lignite. It is doubtful that your company will be able to interest anyone in spending the sizable amounts of money required to develop this holding until the provincial authorities in Saskatchewan change their ideas as to what is a fair return on investment in natural resources in that province.

TREMOLITE

Your company has a 50% interest in a tremolite deposit located in Palmerston Township, Ontario, as well as a 53.4% interest in the company owning the other 50% interest in the property. Drilling has proven 2.5 million tons of tremolitic material to a depth of 200'. Tremolite, a chemically inert filler and binder, is now a possible substitute for asbestos in certain uses. In the past its main use has been in the production of industrial ceramics.

MEXTOR MINERALS LIMITED

Ram owns 91.6% of the outstanding shares of Mextor Minerals Limited which, in turn, owns 49% of Compania Minera de Pinabete, S.A. Negotiations have been going on for over a year with a large company for the sale of Pinabete's main silver property in Nayarit State, Mexico. If agreement is reached it will result in exploration expenditures of at least \$180,000 by the purchaser over a six month option period at the end of which time the buyer will either drop the option or agree to finance the property into production. If the latter, Pinabete will receive an initial payment of U.S. \$1,000,000 upon the exercise of the option as well as annual payments equal to 50% of net profits until an additional U.S. \$5,000,000 is paid.

In December of 1974, Mextor sold its interests in mining claims located in Townships 168, 169 and 175, Sault Ste. Marie Mining Division, Ontario to Ram for \$67,500 which resulted in an equivalent reduction of Mextor's debt to Ram.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 1974

ASSETS

	1974	1973
Current		
Cash	\$ 45,696	\$ 4,967
Current portion of debenture, note 1	2,000,000	—
Marketable securities, at market value, note 2	96,326	236,315
Accounts receivable	341,809	16,689
Prepaid expenses	76,781	14,720
	<u>2,560,612</u>	<u>272,691</u>
Debenture, note 1	<u>3,000,000</u>	<u>—</u>
Long Term Investment, note 3	<u>942,299</u>	<u>897,600</u>
Investment in Subsidiary, note 3	<u>16,991</u>	<u>—</u>
Capital Assets, note 4		
Cost	3,173,218	2,774,863
Less accumulated depreciation and amortization	130,919	387,574
	<u>3,042,299</u>	<u>2,387,289</u>
Other Assets		
Government of Canada bonds, at cost market value \$25,070 — 1973 \$80,350, note 5	24,250	80,287
Other shares, at nominal value	1	1
Land, at cost	46,005	37,079
Sundry deposits and advances	16,275	15,050
	<u>86,531</u>	<u>132,417</u>
	<u>\$9,648,732</u>	<u>\$3,689,997</u>

LIABILITIES

	1974	1973
Current		
Bank indebtedness, note 6	\$1,196,621	\$1,110,089
Accounts payable and accrued liabilities	132,367	347,070
Income taxes	2,498	—
Convertible notes, note 7	235,000	—
Advance from director	274,000	—
	<u>1,840,486</u>	<u>1,457,159</u>
Deferred Income Taxes , note 8	509,000	67,000
Minority Interest in Subsidiary Company	<u>49,712</u>	<u>45,215</u>

SHAREHOLDERS' EQUITY

Capital Stock

Authorized		
150,000 6% non-cumulative preference shares redeemable at par value \$1		
8,000,000 common shares, par value 25¢		
Issued		
3,613,513 common shares	903,378	903,378
Premium on issue of shares less discount	<u>1,026,806</u>	<u>1,026,806</u>
	1,930,184	1,930,184
Retained Earnings	<u>5,377,238</u>	<u>190,439</u>
	7,307,422	2,120,623
Less: 31,000 common shares at cost, note 9	<u>57,888</u>	<u>—</u>
	<u>7,249,534</u>	<u>2,120,623</u>

Approved on behalf of the Board:

R. J. OPEKAR, Director

H. R. BARCLAY, Director

\$9,648,732 \$3,689,997

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED 31 DECEMBER 1974

	1974	1973
Income		
Royalties	\$ 117,574	\$ —
Gas sales	1,763,689	30,530
Oil sales	263,315	137,679
	→ 2,144,578	168,209
Less direct expenses	56,357	61,322
	2,088,221	106,887
Gain on sale of gas and oil permits	—	127,788
Interest and dividends earned	292,326	10,947
	→ 2,380,547	245,622
Exploration and Development Expenses		
Abandoned well costs, leases and mining claims	278,592	176,825
Oil, gas and mining consulting fees	11,313	10,129
Lease and royalty payments	267,863	178,872
Exploration	884,717	57,972
	1,442,485	423,798
Administrative and General Expenses		
Management fees	28,667	44,600
Directors' fees	—	9,000
Rent	24,060	11,590
Depreciation of office equipment, automobiles and amortization of improvements to leased premises	8,824	10,003
Salaries	82,312	45,242
Travel and promotion	5,772	5,617
Legal and audit	31,586	14,065
Transfer agent and stock exchange fees	3,925	2,985
Interest	158,129	54,945
Corporate and office	48,751	37,474
Adjustment of bad debt allowance	—	(30,215)
Miscellaneous	8,414	7,783
	400,440	213,089
Less: Gain on exchange	21,814	—
	378,626	213,089
	1,821,111	636,887

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 1974

Income (Loss) Before Undernoted Items	559,436	(391,265)
Loss on sale of securities	—	868
Provision for decline in market value of marketable securities	132,975	9,653
	132,975	10,521
Income (Loss) Before Provision for Income Taxes	426,461	(401,786)
Provision for current income taxes	2,498	—
Provision for deferred income taxes, note 8	442,000	(117,800)
	444,498	(117,800)
Loss for the Year Before Extraordinary Item	18,037	(283,986)
Extraordinary item, note 1	5,204,836	—
Net Income (Loss) for the Year	5,186,799	(283,986)
Consolidated retained earnings, beginning of year	190,439	474,425
Consolidated Retained Earnings, End of Year	\$5,377,238	\$190,439

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 1974

	1974	1973
Source of Funds		
Operations		
Loss for the year before extraordinary item	(\$ 18,037)	(\$ 283,986)
Add: Items not requiring an outlay of funds		
Amortization and depreciation	268,350	208,267
Deferred income taxes (reduction)	442,000	(120,726)
Gain on sale of gas and oil permits	—	(127,788)
	692,313	(324,233)
Extraordinary item	5,204,836	—
Capital assets sold	45,670	132,391
Decrease in government and industrial bonds	56,037	25,500
Increase (decrease) in minority interest	4,497	(1,896)
Decrease in other assets	—	11,183
	6,003,353	(157,055)
Application of Funds		
Long term portion of debenture, note 1	3,000,000	—
Investment in subsidiary, note 3	16,991	—
Increase in long term investment	44,699	52,288
Capital assets acquired	969,031	1,303,077
Increase in other assets	10,150	—
Common shares acquired, note 9	57,888	—
	4,098,759	1,355,365
Increase (Decrease) in Working Capital	1,904,594	(1,512,420)
Working Capital (Deficiency), beginning of year	(1,184,468)	—
Working Capital (Deficiency), end of year	\$ 720,126	(\$1,184,468)

AUDITORS' REPORT

To the Shareholders
Ram Petroleums Limited

We have examined the consolidated balance sheet of Ram Petroleums Limited and subsidiary companies as at 31 December 1974 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the tax contingency referred to in note 1 and the recovery of long term investments referred to in note 3, these consolidated financial statements present fairly the financial position of the companies as at 31 December 1974 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
18 February 1975

DUNWOODY & COMPANY
Chartered Accountants

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 1974

Debtenture and Extraordinary Item

During the year the company entered into an agreement for the sale of gas in place, gas leases, equipment and other rights for \$7,000,000. Of this amount \$2,000,000 was received in cash and a debtenture for \$5,000,000 was taken back for the balance. The debtenture bears interest at 1% above the prime lending rate of the purchaser's main banker and is payable as follows:

On 1 January 1975	\$2,000,000
On 1 January 1976	1,500,000
On 1 January 1977	1,500,000

In the opinion of counsel, the amount of \$5,204,836 received for other rights is properly treated for tax purposes as the proceeds of disposition of a capital property and not a Canadian resource property as those terms are defined in the Income Tax Act. The company has been advised that on valuation day, 31 December 1971, the fair market value of such rights was greater than the sale price received. Accordingly no income taxes have been provided in respect of this amount. To the extent that any portion or all of the said amount of \$5,204,836 is found to be the proceeds of disposition of a Canadian resource property, such amount would constitute income for tax purposes.

2 Marketable Securities

Marketable securities consist of the following securities:

Number of Shares	Name	Market Value
75,100	Magnetics International Ltd.	\$19,526
10,000	Pine Tree Explorations Ltd.	800
10,000	Transair Limited	22,000
1,000	Union Oil Company of Canada Ltd.	7,750
25,000	Yellowknife Bear Mines Ltd.	46,250
		<u>\$96,326</u>

3 Subsidiary Companies and Long Term Investment

The consolidated financial statements include the accounts of the company's wholly-owned subsidiary companies, Fibrop Mines and Oils Limited and Ram Petroleums Inc. and the accounts of Mextor Minerals Limited, which is 91.6% owned.

Mextor Minerals Limited

The only asset of Mextor Minerals Limited is a long term investment in a Mexican company, Compania Minera de Pinabete, S.A. ("Pinabete") made up as follows:

	1974	1973
Cost of shares in Pinabete — see note (a)	\$198,127	\$183,454
Advances to Pinabete — see note (b)	641,369	611,394
Excess of purchase price on acquisition — see note (c)	102,803	102,752
	<u>\$942,299</u>	<u>\$897,600</u>

(a) COST OF SHARES IN PINABETE

The Company's interest in the exploration projects of Pinabete commenced with agreements made in 1969 and amended in November 1971, with the Mexican owner of substantially all the outstanding shares of Pinabete. Under the terms of the agreements, the Company obtained title to the major shareholder's 1,223 Class "B" shares, which shares represent a 48.92% interest in Pinabete. Of the total cost of \$198,127, a sum of \$56,993, plus interest at 12% per annum is repayable to the Company by the major shareholder, but is limited to the proceeds which can be realized from the sale of the major shareholder's Class "A" shares of Pinabete (representing 50.92% interest) to other Mexican nationals within the period to the year 2000.

The cost of the Company's investment in Pinabete will not be established until future periods and is dependent upon the future productivity of Pinabete's exploration projects.

(b) ADVANCES TO PINABETE

The principal portion of the Company's advances to Pinabete have been spent in the Republic of Mexico on deferred expenditures on mining concessions which are either held by Pinabete or of which Pinabete is the beneficial holder. These concessions are near Guadalajara, Mexico, and Pinabete has the right to develop certain other properties under option agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1974

The policy of both companies is to defer expenditures until the exploration work results in discovery and acquisition of commercially mineable properties, at which time the direct exploration costs are capitalized and amortized over the life of the properties, or, to write off the expenditures if the results of the exploration work are negative.

- (c) The excess is the amount by which the cost of shares in Mextor Minerals Limited exceeded their book value when purchased by Ram Petroleum Limited.

Pinabete has had no income to 31 December 1974 and its assets are represented essentially by deferred expenditures.

A lawsuit, to which Pinabete has been joined, has been filed against the vendor of the Pinabete silver property claiming that the mineral rights of the mines were not legally granted to Pinabete. In the opinion of management and the legal counsel of Pinabete, the possibility of the lawsuit succeeding is remote.

Taman Resources Limited

Effective 31 December 1974 the Company acquired shares in Taman Resources Limited giving it control of that company, through ownership of 53.42% of the issued share capital at a total cost of \$16,991. These shares were acquired for cash and the accounts of this subsidiary are not consolidated into these statements because they are of relative insignificance having regard to all related circumstances. The assets of the subsidiary are essentially deferred development costs.

4. Capital Assets

	1974		1973	
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization
Interest in natural gas and oil leases	\$1,453,546	\$ 16,439	\$ 949,492	\$ 17,769
Equipment	140,343	37,368	202,920	101,313
Development costs deferred	419,491	45,381	907,701	259,628
Improvements to lease premises	—	—	4,380	4,380
Automobiles	18,495	8,688	14,946	4,484
Exploration and prospecting permits and licences	398,820	—	465,054	—
Exploration and prospecting costs deferred	742,523	23,043	230,370	—
	<u>\$3,173,218</u>	<u>\$ 130,919</u>	<u>\$2,774,863</u>	<u>\$ 387,574</u>

AMORTIZATION AND DEPRECIATION POLICY

Amortization of gas and oil leases, and deferred development costs, and depreciation of production equipment is based on the estimated net recoverable oil reserves and the contracted quantities of gas sales.

The accumulated development and lease acquisition costs of abandoned wells are written off in the year of abandonment.

Exploration, prospecting and lease acquisition costs are written off against revenue earned from subsequent production. If in any year, an exploration project is abandoned, the applicable accumulated costs are written off in that year.

Automobiles are depreciated at the rate of 30% per annum on the declining balance.

5. Commitments

- (a) The company has deposited \$25,000 par value Government and Industrial Bonds as a guarantee that exploration expenditures equal thereto will be made.
- (b) The company has additional commitments for exploration expenditures for which it has given promissory notes amounting to \$88,234.

6. Bank Indebtedness

The bank indebtedness is secured by a general assignment of debts and the company has lodged certain of its securities as collateral security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1974

7. Convertible Notes

The company has placed privately \$235,000 of unsecured 10% convertible promissory notes maturing 28 February 1975. The notes are convertible on the basis of one common share for each \$2.35 of notes at any time before maturity.

8. Deferred Income Taxes

For income tax purposes the company has claimed tax reserves and expenses in excess of those recorded in the accounts, which result in a deferral of tax of \$509,000 to date.

9. Acquisition of Shares

During the year the company purchased 31,000 shares of its own stock on the open market. The market value at 31 December 1974 was \$62,000.

10. Stock Options

100,000 common shares have been set aside for the company's key executives and employees, to be purchased at a price not less than 90% of the fair market value of the shares, exercisable as specified by the Board of Directors, within a period of not more than ten years ending 31 December 1984.

11. Statutory Information

	1974	1973
Remuneration of directors and senior officers (as defined by The Business Corporation Act.)	<u>\$66,716</u>	<u>\$54,242</u>

12. Foreign Exchange

The assets, liabilities and operations of Ram Petroleum Inc., one of the wholly-owned subsidiaries, which are in U.S. dollars, have been converted at par.

13. Earnings Per Share

	1974	1973
Income before extraordinary item	<u>—</u>	<u>—</u>
Net income for year	1.45	—

The dilutive effect of the conversion of convertible notes referred to in note 7 is insignificant.



RAM PETROLEUMS LIMITED
and subsidiary companies

**CONSOLIDATED STATEMENT
OF SOURCE AND APPLICATION OF FUNDS**

(Subject to audit and year end adjustments)

Six months ended June 30, 1974

(with comparative figures for 1973)

	1974	1973
Source of Funds		
Sale of Government of Canada Bonds	\$ 51,110	\$ —
Decrease in sundry de- posits	—	5,600
	<u>51,110</u>	<u>5,600</u>
Application of Funds		
Loss from operation for the period	275,572	41,302
Items not involved in current Funds:		
Depreciation and amortization	(23,328)	(46,697)
Additions to capital assets	801,547	373,076
Increase in long term investments	22,141	328,950
Decrease in minority interest	577	22
Land improvements	3,278	—
	<u>1,079,787</u>	<u>696,653</u>
Increase (decrease) in working capital position	(1,028,677)	(691,053)
Working capital (deficiency) at begin- ning of period	(1,184,468)	202,139
Working capital (deficiency) at end of period	<u>\$ (2,213,145)</u>	<u>\$ (488,914)</u>

AR36

RAM PETROLEUMS LIMITED

(Incorporated under the laws of Ontario)

Executive and Suite 520
Head Office The Simpson Tower
401 Bay Street
Toronto, Ontario M5H 2Y4

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RICHARD H. KREMPULEC
RALPH W. McDOWELL
ROBERT J. OPEKAR
R. BREDIN STAPELLS, Q.C.

Officers ROBERT J. OPEKAR, President
HOWARD R. BARCLAY, Vice-President
RICHARD H. KREMPULEC, Secretary

Exploration Manager CYRIL J. HADLEY, P.Geol., P.Eng.

Transfer Agents THE METROPOLITAN TRUST
COMPANY
Toronto, Ontario

THE BANK OF BUTTERFIELD
EXECUTOR AND TRUSTEE
COMPANY LTD.
Hamilton, Bermuda

Auditors DUNWOODY & COMPANY
Toronto, Ontario

Banker THE BANK OF NOVA SCOTIA
44 King St. W.
Toronto, Ontario

General Counsel STAPELLS & SEWELL
Toronto, Ontario

Ram Petroleums Limited

*Interim Report
For the Six Months
Ended June 30, 1974*

To the Shareholders:

Subsequent to the last progress report to shareholders dated June 13, 1974, in which your company announced the sale of its Terminus gas pool, located in Lambton County, Ontario to The Consumers' Gas Company, the company was advised by Union Gas Limited that it intended to exercise its first right of refusal to purchase the pool. On July 15th Union Gas Limited completed the purchase and your company received a payment of \$2 million as well as \$5 million Union Gas Limited debentures. The debentures are security for the unpaid balance which is due to Ram in the amount of \$2 million on January 1, 1975, \$1,500,000 on January 1, 1976 and \$1,500,000 on January 1, 1977. Interest at 1% over Union's main bank prime rate is payable on the outstanding balances. The additional payments from Union are subject to Union receiving approval from the Ontario Energy Board by December 31, 1974, to have Terminus designated as a storage area and receiving permission to inject or withdraw gas. In the event that Union has not received this approval and permission by December 31, 1974, Union has the right to return the Terminus assets to Ram in return for repayment of \$1,650,000 to be paid in cash or to be paid by delivery of gas. For this purpose gas would be priced at time of delivery at the gate price for western gas at Union's main Dawn station under the terms of its CD-100 contract with TransCanada Pipelines.

Your company does not anticipate that Union will have any difficulties in receiving the approval and permission referred to above.

An extensive seismic survey is nearing completion in Ontario and it is expected that quite a number of drillable targets will result. We expect to drill about 15 to 20 exploratory wells in Ontario over the next year. We have just commenced the drilling of Ram #30 in Moore Township, Ontario. In Michigan, we expect to spud our Brown-Short #1-18, Bear Lake Township, Manistee County. Our interest in this well is 75% subject to a one eighth royalty. We are continuing to purchase royalty interests in Michigan in lands held under lease by Shell Oil Company. So far, Shell has drilled and completed seventeen wells on land in which your company owns a portion of the royalty interest. Two of these Shell wells are now producing. You will note

from the six months financial statement that we are just beginning to receive income from our royalties. You may recall that your company has a one third interest subject to a three eighths royalty in the Gornick #1-23 well which was drilled in 1972. This well has been shut in for some time due to production problems. It was recompleted in July of this year and I am happy to report that the recompletion was successful and that the well has been producing at a rate of about 300 barrels per day. We understand that the operator, Michigan Consolidated Gas Company, is making an application to have the level of production allowed by the State increased from 150 barrels per day to 300 barrels per day. Elsewhere in the U.S. we are continuing our leasing program in the State of Utah.

Production at your company's Petrolia East oil pool continues to be disappointing. However, we now believe that this rate of production can be improved by fairly simple remedial procedures. The success or failure of the remedial program should be discernible within a few months.

Our 92% owned subsidiary, Mextor Minerals Limited, through its Mexican affiliate, Compania Minera de Pinabete, S.A. continued to maintain its properties in Mexico in good standing. Negotiations have been underway for some months to interest another company in financing the Pinabete silver property into production on a basis which would allow Mextor to recover all its advances and also obtain a substantial proportion of future profits. These negotiations have been suspended and will be resumed as soon as we arrive at a method of structuring the transaction which will meet with the approval of all the Mexican regulatory authorities. A second company has expressed a serious interest in the property and intends to send a geological party to the property in order to conduct a check assay program and to do a geological survey.

On Behalf of the Board,

R. J. OPEKAR,

President.

August 7, 1974.

RAM PETROLEUMS LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

(Subject to audit and year end adjustments)

Six months ended June 30, 1974

(with comparative figures for 1973)

	1974	1973
Revenue from gas production \$	7,534	\$ 18,452
Revenue from oil production	92,286	39,113
Revenue from royalty interest	31,426	—
	<u>131,246</u>	<u>57,565</u>
Less expense	19,962	10,273
	<u>111,284</u>	<u>47,292</u>
Other revenue	1,581	4,534
	<u>112,865</u>	<u>51,826</u>
Exploration and development expenses	169,404	164,773
Administrative and general expenses	138,923	97,238
	<u>308,327</u>	<u>262,011</u>
Income (loss) before under-noted items	(195,462)	(210,185)
Profit (loss) on sale of securities	(110)	357
Profit on sale of oil and gas permits	—	129,054
Allowance for bad debts no longer required	—	39,472
Provision for decline in market value of marketable securities	(80,000)	—
	<u>(80,110)</u>	<u>168,883</u>
Net income (loss) for the period	<u>\$ (275,572)</u>	<u>\$ (41,302)</u>